

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7362

BILL NUMBER: HB 1655

NOTE PREPARED: Jan 4, 2005

BILL AMENDED:

SUBJECT: Treated Ammonia Tax Credit.

FIRST AUTHOR: Rep. Lehe

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that a taxpayer is entitled to a state tax credit equal to \$9 per ton for the purchase of anhydrous ammonia treated with commercial additives that render the ammonia unusable to produce methamphetamine, significantly interfere with the use of the ammonia to produce methamphetamine, or make the theft of the ammonia more difficult. The bill requires the State Chemist to publish a list of additives that qualify for the tax credit.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

State Chemist: The bill requires the State Chemist to annually prepare, in consultation with the State Police Department, and publish a list of commercial additives that render anhydrous ammonia unusable or interfere with its use in producing methamphetamine, or make theft of the chemical difficult. The bill requires the State Chemist to provide a copy of the list to the State Police Department and the Department of State Revenue.

Explanation of State Revenues: *Summary:* The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax. It is estimated that credits claimed for the purchase of anhydrous ammonia treated to prevent theft or use in methamphetamine production could potentially total about \$2.3 M annually beginning with tax year 2006. However, the annual fiscal impact from the credit would depend on taxpayers having

sufficient tax liabilities to exhaust the credits. The fiscal impact of the credit is expected to begin in FY 2007; or FY 2006 if taxpayers adjust their quarterly estimated payments.

Background: The bill establishes a nonrefundable AGI Tax credit for individual and corporate taxpayers who purchase anhydrous ammonia that contains an additive determined by the State Chemist to do any of the following:

- (1) render it unusable to produce methamphetamine;
- (2) significantly interfere with its use in producing methamphetamine;
- (3) make the theft of the chemical more difficult by staining, dyeing, or otherwise identifying the ammonia, the equipment or container used in the theft of the ammonia, or the person committing the theft.

The credit is equal to \$9 per ton of the treated anhydrous ammonia purchased by the taxpayer, and may be taken against the taxpayer's AGI tax liability. Any unused credit may be carried forward by a taxpayer. However, a taxpayer is not entitled to a carryback or refund of unused credits. For pass through entities, the credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

The credit is effective beginning in tax year 2006. Revenue from the AGI Tax on corporations is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Anhydrous ammonia is used as a fertilizer. On average, about 250,000 tons of anhydrous ammonia is purchased and used in Indiana. The State Chemist reports that an additive called *GloTell* can be used to treat anhydrous ammonia. When *GloTell*-treated anhydrous ammonia is released into the atmosphere, most objects that come in contact with it are stained a fluorescent pink color. According to the State Chemist, the additive costs about \$9 per ton. Thus, the tax credit would offset this additional cost to the user.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Office of the Indiana State Chemist, State Police.

Local Agencies Affected:

Information Sources: Alan R. Hanks, State Chemist, (765) 494-1492.

Fiscal Analyst: Jim Landers, 317-232-9869.